

SGGF III

Saskatchewan Government Growth Fund III Ltd.

Creating economic wealth and diversification
through investment of immigrant investor capital in Saskatchewan

2002 ANNUAL REPORT



**SASKATCHEWAN GOVERNMENT
GROWTH FUND**

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FUND PROFILE

Saskatchewan Government Growth Fund III Ltd. ("SGGF III" or the "Fund") is a government-administered venture capital fund pursuant to the Immigration Regulations, 1978 (Canada), as amended. It was formed to enable immigrant investors to invest in businesses operating in Saskatchewan and facilitate the investors' qualification as Canadian permanent residents under the Immigrant Investor Program.

FINANCIAL HIGHLIGHTS

- SGGF III incurred a loss of \$578,000 in 2002, resulting in an increase in the accumulated deficit to \$5.4 million.
- Since the inception of SGGF III in 1995, investments made by the Fund total \$26.1 million.
- Income from investments and portfolio investments of \$447,000 in 2002 was \$439,000 lower than 2001 when \$886,000 was earned.
- Repayments of Notes at maturity continued at \$150,000 in 2002.

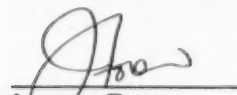
MESSAGE TO INVESTORS

The priority of Saskatchewan Government Growth Fund III Ltd. in 2002 continued to be the liquidation of its remaining investments to provide funds for payments to Noteholders at maturity of their Notes.

Payments to Noteholders on maturity of the Notes were set at \$150,000 in 2001 based on forecasts of cash expected to be available from disposal of investments and scheduled maturities of Notes. This ensures that all investors are treated equally on the maturity of their Notes. During 2002, payments of \$150,000 each were made on 60 Notes which matured during the year. The Fund periodically reviews its forecasts of cash flows. If the assumptions underlying current forecasts prove to be correct, we expect that payment of additional amounts to those Noteholders whose Notes have already matured may be possible in 2004.

In October 2002, Gary Benson retired as President of SGGF III. Gary had been President since the inception of SGGF III. In February 2003, Keith Rissling, who became a director in May 1999, retired from the Board. On behalf of the Board, we thank Gary and Keith for their contribution to SGGF III. Alan Rowe was appointed President in October 2002, and Harwood Davies was elected as a director in February 2003.

In 2003, SGGF III will continue to actively manage its remaining investments with a view to achieving for investors the best liquidation proceeds available in the prevailing circumstances. As significant new developments occur, such information will be provided to the Noteholders.


Joanne Forer
Chair
Alan M. Rowe
President

INVESTMENT PROFILES

The following are profiles of investments held by SGGF III during 2002, including the total amount invested and a description of the companies' operations. The date of the initial investment in each company is noted in parentheses.

Big Sky Farms Inc. (January 1996)

\$1,750,000 loans and common shares

Big Sky Farms, headquartered in Humboldt, Saskatchewan, operates a number of farrow to finish hog operations in Saskatchewan. These operations are among the largest hog production facilities in the province. The company expanded in 2002 to other areas of Saskatchewan. Big Sky repaid its loans of \$750,000 during the year and SGGF III continues to hold an equity investment with a cost of \$3 million.

Dutch Industries Ltd. (March 1997)

\$1,000,000 loan

Dutch Industries is a Regina-based manufacturing, repair, fabrication and steel supply company. It is a pioneer in the area of zero depth tillage technology for the North American agricultural industry and is a leader in the development and commercial use of windmill technology for agricultural, municipal and utility applications. The company repaid its loan in 2002.

BelAir Energy Corporation (December 1997)

\$500,000 common shares

BelAir Energy Corporation is a publicly-traded (TSX Venture: BEC) company headquartered in Calgary, Alberta. The company is involved in the acquisition, exploration and development of natural gas and crude oil producing properties in Alberta and Saskatchewan.

Millstreet Industries Inc. (March 1997)

\$475,000 common shares

Millstreet Industries is headquartered in Regina with operations in Saskatchewan, British Columbia, Alberta and Manitoba. The company distributes and services specialized equipment for the application and storage of fertilizers and chemicals. It also delivers industrial services including maintenance, repair and fabrication services for resource extraction industries. The company's shares trade on the TSX Venture Exchange (MLI).

PEL Industries Inc. (July 1998)

\$1,000,000 loan

PEL Industries is located in Swift Current, Saskatchewan. The company manufactures agricultural related products that assist in the handling and movement of grain. These products include grain vacs, grain drops, aeration fans, air seed blowers, chaff spreaders and flexible harrow drawbars.

Points North Leasing Inc. (April 1998)*\$2,188,268 loans*

Points North, with headquarters at Points North Landing, Saskatchewan, owns aircraft, buildings, equipment and vehicles that are leased to a freight forwarding business serving northern Saskatchewan.

Prairie Sulphate Corporation (August 1996)*\$1,614,513 loans and common shares*

Prairie Sulphate Corporation is located at Alsask, Saskatchewan. The company manufactures potassium sulphate fertilizer; a specialty product used in the care of chloride sensitive plants such as citrus trees, tobacco, and golf course greens. SGGF III has loans with a principal amount of \$1.1 million outstanding. The company is currently negotiating a restructuring of its financing with its lenders as a result of operating difficulties it has experienced.

Star Biotech Inc. (January 1998)*\$1,155,022 common shares*

Star Biotech Inc. (formerly Biostar Inc.) is a Saskatoon-based biotechnology company using advanced technologies to develop and produce high value-added, bio-engineered vaccines for animals and humans. In 2000 SGGF III's debt position was converted to shares and Biostar sold its assets for a combination of cash and equity and royalty interests in other companies. SGGF III's recovery on this investment is dependent on Star Biotech selling its equity and royalty interests.

CAJON Leasing (December 2001)*\$7,227,661 loans*

CAJON, located in Regina, leases vehicles and other assets to Saskatchewan Crown corporations and other government-related entities.

R & R Leasing (December 2001)*\$3,047,500 loans*

R&R is based in Saskatoon and leases buildings, equipment and vehicles to Saskatchewan Crown corporations, other government-related entities and private enterprises.

MANAGEMENT DISCUSSION AND ANALYSIS

SGGF III incurred a loss of \$578,000 in 2002, resulting in an increase in the accumulated deficit to \$5.4 million. Investment income was less than expenses and interest on obligations to investors.

In January 2001, cash flow projections indicated that timing differences existed between planned liquidations of investments and scheduled investor repayments. In order to treat all investors equally, payments on Notes at maturity were reduced to \$150,000. Repayments at maturity continued at \$150,000 in 2002. The payment of any amount in addition to the initial payment at maturity is dependent on the liquidation of investments, many of which are in private companies as required by the federal government regulations that govern immigrant investor funds. These investments typically have more risk than other types of investments. Any forecast of when such investments will be liquidated reflects a best judgment based on current information, and involves a number of risks and uncertainties and other factors that may cause actual results to differ materially from the forecast. If the assumptions underlying current forecasts prove to be correct, payment of additional amounts may be possible in 2004.

SGGF III continues to actively manage its remaining investments with a view to achieving for investors the best liquidation proceeds available in the prevailing circumstances.

The federal Immigrant Investor Program under which SGGF III operates requires that the five year term to maturity of a Note be extended if, and for so long as, less than 70% of the amount of the Note is invested in the active business operations of eligible businesses in Saskatchewan.

Investment Activities

In 2002, \$64,000 was invested in one company already in the portfolio. This investment took the form of two protective disbursements. Management believes that these investments are prudent in preserving the interest of SGGF III in these investees.

Since the inception of SGGF III in 1995, investments made by the Fund total \$26.1 million. Of this total, \$15.8 million has been invested in small and medium-sized enterprises (SMEs) and \$10.3 million has been invested in infrastructure loans.

At December 31, 2002, the investment portfolio totaled \$7.8 million, compared with \$11.4 million a year earlier. Investments consisted of loans to five companies totaling \$5.4 million (2001 – eight companies, \$9.0 million) and investments in equity of four companies totaling \$3.6 million, unchanged from 2001. Provisions for losses total \$1.2 million, compared with \$1.1 million at the end of 2001. In addition, the statement of financial position includes \$2.1 million in cash and portfolio investments, compared with \$8.3 million at December 31, 2001. The reduction reflects the use of liquid assets to pay obligations to investors.

Income from investments and portfolio investments of \$447,000 in 2002 is down \$439,000 from 2001 when \$886,000 was earned. The decrease reflects the lower level of investments held throughout the year as liquidations occur and the resulting cash is used to satisfy the Fund's liabilities.

The charge to income for investment losses in 2002 was \$132,000 (2001 - \$3.8 million). This provision adjusts impaired investments to their estimated net realizable value and publicly traded shares to the lower of their cost and market value.

In 2001, companies with which SGGF III was associated sold assets that were used in their leasing business. SGGF III extended loans to the acquirers to purchase the assets. Repayment of the loans to SGGF III is on essentially the same terms as were the loans to the vendor. Revenue from operating leases, net of amortization of equipment on lease, totaled \$285,000 in 2001.

Investor Activities

Partial repayment of investor obligations at maturity continued throughout 2002. As noted above, in 2001, payments to investors at maturity were reduced to \$150,000. In 2002, 60 investors were each paid \$150,000 at the maturity of their Note.

At December 31, 2002, obligations to investors totaled \$15.1 million, comprised of 28 Notes with a face value of \$250,000 and 81 Notes with a remaining value of \$100,000. Of the Notes outstanding at December 31, 2002 on which no principal payments have been made, 26 are scheduled to mature in 2003 and 1 in each of 2004 and 2005.

Obligations under the Notes are subordinate to all other liabilities of SGGF III and repayment is dependent on the proceeds on liquidation of investments and all other available liquidity in excess of other liabilities.

In accordance with the terms of the Confidential Offering Memorandum for SGGF III, interest was paid in 2002 on all Notes that had not reached their maturity date. Interest is accrued on the remaining obligations outstanding under the Notes after maturity and will be paid only if and when cash is available after repayment of the remaining principal amounts. Total interest expense recorded in the year was \$380,000, compared with \$505,000 in 2001. The decrease reflects the reduction during the year in Notes outstanding.

Operating Activities

Administration costs reflect expenditures related to the ongoing operations of the Fund and its investments. As a percentage of average total assets managed, these costs, excluding future fees, amounted to 2.61% in 2002 and are comparable to 2.39% in 2001.

Administration costs of \$377,000 (2001 - \$563,000) include a reduction of \$13,000 (2001 - \$2,000 increase) in the provision for fees payable in the future to investment advisors based on the performance of funds under management by the advisor. Management fees in the year totaled \$352,000, compared with \$522,000 in 2001. The reduction reflects the decrease in the investment portfolio.

The provision of administration and investment advisory services to SGGF III is contracted to Crown Capital Partners Inc. The manager is paid a monthly fee for its services and will receive a performance fee based on the retained earnings, if any, of SGGF III after all investor obligations have been repaid in full and all investments have been liquidated.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

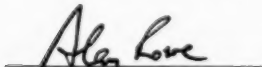
The President and fund manager of the Saskatchewan Government Growth Fund III Ltd. are responsible for management of the Fund. The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include amounts which are based on informed judgement and management estimates. Financial data presented elsewhere in this annual report is consistent with that in the financial statements.

Ensuring the integrity and objectivity of financial information is an integral part of management's responsibility. Management maintains an appropriate system of internal accounting and administrative controls, policies and procedures to provide reasonable assurance that all transactions are authorized, financial records are complete and accurate, and assets are safeguarded against loss.

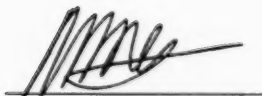
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board has reviewed and approved these financial statements.

Deloitte & Touche LLP, the corporation's independent auditors, have examined the financial statements of the corporation. Their responsibility is to conduct an independent and objective audit and to report on the fairness of presentation of the corporation's financial position, results of operations and cash flows as shown in the financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

On behalf of management,



Alan M. Rowe, C.A.
President



Mike Merth, C.A., C.M.A.
Crown Capital Partners Inc.

AUDITORS' REPORT

To the Shareholder of Saskatchewan Government Growth Fund III Ltd.:

We have audited the statement of financial position of Saskatchewan Government Growth Fund III Ltd. as at December 31, 2002, and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
February 7, 2003

FINANCIAL STATEMENTS

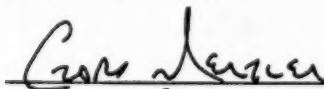
Saskatchewan Government Growth Fund III Ltd.
(Incorporated under The Business Corporations Act of Saskatchewan)
Statement of Financial Position
As at December 31

	<u>2002</u>	<u>2001</u>
Assets		
Cash	\$ 1,633,811	\$ 8,324,531
Portfolio investments (Note 4)	486,445	-
Accounts receivable and accrued income	16,567	63,375
Investments (Note 5)	7,753,407	11,428,384
Deferred costs (Note 6)	-	135,638
	<u>\$ 9,890,231</u>	<u>\$ 19,951,928</u>
Liabilities and Shareholder's Deficiency		
Accounts payable and accrued liabilities (Note 7)	\$ 49,321	\$ 126,136
Commissions payable	35,750	35,750
Accrued interest payable to investors	122,282	504,520
Subscription deposits (Note 8)	25,010	50,010
Obligations to investors (Note 9)	15,100,000	24,100,000
	<u>\$ 15,332,363</u>	<u>\$ 24,816,416</u>
Share capital (Note 10)	2,000	2,000
Deficit	(5,444,132)	(4,866,488)
	<u>(5,442,132)</u>	<u>(4,864,488)</u>
	<u>\$ 9,890,231</u>	<u>\$ 19,951,928</u>

Commitments (Note 15)

See accompanying notes to the financial statements

On behalf of the Board:



Gordon Mertler
Director



Lloyd Boutilier
Director

Saskatchewan Government Growth Fund III Ltd.
Statement of Operations and Deficit
For the Year Ended December 31

	<u>2002</u>	<u>2001</u>
Revenues		
Interest from cash and portfolio investments	\$ 133,609	\$ 416,383
Income from investments	313,374	469,495
Lease revenue	-	1,812,596
Other income	-	25,121
	<u>446,983</u>	<u>2,723,595</u>
Provision for credit losses	75,257	1,799,183
Allowance for unrealized losses on public equities	56,875	2,018,354
	<u>132,132</u>	<u>3,817,537</u>
Net revenue	<u>314,851</u>	<u>(1,093,942)</u>
Expenses		
Administration (Note 12)	377,093	563,289
Interest on obligations to investors	379,764	504,589
Amortization of equipment on operating leases	-	1,527,178
Amortization of deferred costs	135,638	359,433
	<u>892,495</u>	<u>2,954,489</u>
Net loss	(577,644)	(4,048,431)
Deficit, beginning of year	<u>(4,866,488)</u>	<u>(818,057)</u>
Deficit, end of year	<u>\$ (5,444,132)</u>	<u>\$ (4,866,488)</u>

See accompanying notes to the financial statements

Saskatchewan Government Growth Fund III Ltd.
Statement of Cash Flows
For the Year Ended December 31

	<u>2002</u>	<u>2001</u>
Cash flows from operating activities		
Net loss	\$ (577,644)	\$ (4,048,431)
Adjustments:		
Amortization of deferred costs	135,638	359,433
Provision for credit losses	75,257	1,799,183
Allowance for unrealized losses on public equities	56,875	2,018,354
Amortization of equipment on operating leases	-	1,527,178
Net change in non-cash balances related to operations (Note 13)	(412,245)	583,806
Cash flows from operating activities	<u>(722,119)</u>	<u>2,239,523</u>
Cash flows from investing activities		
Purchase of portfolio investments	(486,445)	-
Sale of portfolio investments	-	4,000,000
Disbursements on investments	(64,893)	(4,608,484)
Repayments from investments	3,607,737	1,128,084
Sale of equipment on operating leases	-	4,559,039
Cash flows from investing activities	<u>3,056,399</u>	<u>5,078,639</u>
Cash flows from financing activities		
Repayment of obligations and subscription deposits	(9,025,000)	(3,450,000)
Cash flows from financing activities	<u>(9,025,000)</u>	<u>(3,450,000)</u>
Net (decrease) increase in cash	(6,690,720)	3,868,162
Cash, beginning of year	8,324,531	4,456,369
Cash, end of year	<u>\$ 1,633,811</u>	<u>\$ 8,324,531</u>
Interest paid during the year	<u>\$ 759,082</u>	<u>-</u>

See accompanying notes to the financial statements

Saskatchewan Government Growth Fund III Ltd.

Notes to the Financial Statements

1. Status of the corporation

Saskatchewan Government Growth Fund III Ltd. ("SGGF III") was incorporated in October 1994 under The Business Corporations Act of Saskatchewan and has been accepted as a government administered venture capital fund under the federal government's Immigrant Investor Program ("IIP"). Under this program, SGGF III was established to raise \$35,000,000 through a note offering. Each note is a 2% unsecured, subordinated debt instrument with a cost of \$250,000, repayable in five years provided that 70% of the proceeds are invested in eligible businesses ("Notes") throughout the five year period. SGGF III commenced commercial operations in 1995. The marketing period for SGGF III ended July 31, 1997.

The Confidential Offering Memorandum ("Memorandum") and IIP prescribe various conditions that qualify an investment as an eligible business, including a requirement that the business be Saskatchewan based and have assets, including assets of associated companies, of less than \$35 million.

As stated in the Memorandum, the Government of Canada and the Government of the Province of Saskatchewan offer no guarantees or assurances on the financial performance of SGGF III or of a return of an investor's original investment and neither government will be liable for any loss or damages suffered by an investor as a result of an investment in the Notes.

2. Significant accounting policies

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are considered significant:

Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed quarterly and, as adjustments become necessary, they are reported in the Statement of Operations and Deficit in the period in which they become known.

Portfolio investments

Government of Canada Treasury Bills ("T-Bill") are valued at cost.

Investments

Investments include debt investments in private companies, and equity investments in private and public companies. Income from debt investments is recognized as earned and income from equity investments is recognized when received.

Debt investments are carried at cost, net of provisions for credit losses.

Provisions for credit losses are established on impaired debt instruments ("loans"). A loan is considered to be impaired if, as a result of a deterioration in credit quality, there is no longer reasonable assurance of the timely collection of the full amount of principal and

interest. Any loan on which contractual payments are in arrears for 90 days or more is usually assumed to be impaired. Other factors that are considered in determining whether a loan is impaired include the overall credit quality of the borrower and the fair value of the underlying security. When a loan becomes impaired, recognition of interest income ceases. A provision for specific credit losses is established for impaired loans to reduce their value to the estimated fair value of the security underlying the loan. If the credit quality of the loan subsequently improves a provision is reduced or reversed.

Investments in publicly traded equities are carried at the lower of cost and market where market is determined as the average closing market price over the last 20 trading days prior to the financial statement date, with adjustment to reflect lack of market liquidity.

Investments in equities in private companies are carried at the lower of cost and, where a loss in value that is other than temporary has occurred, net realizable value. Investments that are evaluated as possibly being subject to a loss in value are assessed periodically based on appropriate criteria, including past operating results of the investee, financial outlook of the investee, recent capital transactions, and their associated value, between the investee and arm's length parties, and liquidity or going concern problems of the investee.

When a decline in the value of an equity investment in a private company is no longer considered to be temporary, the investment is written down and carried at the written down value until disposal of the equity investment.

SGGF III intends to dispose of its investments in due course. Accordingly, investee companies over which SGGF III has significant influence are not consolidated.

Deferred costs

Deferred costs include consulting, legal, administrative, accounting, general and printing costs associated with SGGF III's offering. Commissions paid or payable on subscriptions received have also been deferred. Deferred costs, including commissions, are amortized over five years from date of Note issuance.

Commissions payable

According to the terms of a marketing agreement entered into by SGGF III, a commission is payable to the independent marketing agent selling the Note upon the issuance of the investor's immigrant visa.

Obligations to investors

Obligations to investors represent the Notes issued to investors of SGGF III. Their investment helps to satisfy a portion of their visa requirements under the IIP. Interest to the maturity date on Notes is accrued at an annual rate of 2% from the date of Note issuance and is paid annually on December 31 and at maturity and thereafter is accrued on any remaining balance outstanding.

3. Provisions of the IIP

Minimum holding period and maturity of the Notes

A Note is issued to evidence receipt of the subscription deposit on the date that at least 70% of the subscription deposit is invested in eligible businesses. Each Note is scheduled to mature five years from such date, provided SGGF III maintains at least 70% of the Note continuously invested in the active business operations of eligible businesses for five years following the issuance date. The IIP contains provisions that

require the maturity date of a Note be extended if, and for such period that, a minimum of 70% of the Note amount ceases to be invested in the active business operations of eligible businesses.

4. Portfolio investments

Security	Rate (%)	Maturity Date	Par (\$)	<u>2002</u> Cost (\$)	<u>2001</u> Cost (\$)
T-Bill	2.94	4/12/03	500,000	486,445	-

Market value at December 31, 2002 is \$486,445.

5. Investments

	<u>2002</u>	<u>2001</u>
Debt instruments	\$ 5,429,131	\$ 8,982,386
Equity instruments	3,559,821	3,559,821
Provision for credit losses	(817,914)	(753,067)
Allowance for unrealized losses on public equities	<u>(417,631)</u>	<u>(360,756)</u>
	<u>\$ 7,753,407</u>	<u>\$ 11,428,384</u>

Included in investments is \$2,588,501 (2001 - \$2,797,110) of impaired investments, net of accumulated provision for credit losses of \$817,914 (2001 - \$753,067), upon which income is not accrued. During the year \$8,327 (2001 - \$3,544,139) of investments and costs have been written off.

Equity investments include publicly traded shares at a cost of \$507,537 (2001 - \$507,537), with an aggregate market value of \$85,849 (2001 - \$146,781).

During the year, investments decreased as follows:

	<u>2002</u>	<u>2001</u>
Balance, beginning of year	\$ 11,428,384	\$ 11,685,599
New investments	63,884	4,640,060
Book value of divestments	(3,608,812)	(1,778,082)
Investments and costs written off	(8,327)	(3,544,139)
Net change in provision for credit losses	(64,847)	(313,797)
Net change in allowance for unrealized losses on public equities	<u>(56,875)</u>	<u>738,743</u>
Balance, end of year	<u>\$ 7,753,407</u>	<u>\$ 11,428,384</u>

6. Deferred costs

Deferred costs have been recorded net of accumulated amortization of \$1,734,052 (2001 - \$1,598,414).

7. Accounts payable and accrued liabilities

Included in accrued liabilities is a provision of \$30,967 (2001 - \$43,642) for future fees payable to various investment advisors under the terms of their respective investment services agreements with SGGF III. These amounts are payable to the investment advisors upon liquidation of the portfolio under their management and upon achievement of certain performance targets.

8. Subscription deposits

Subscription deposits are reclassified as obligations to investors upon Note issuance.

9. Obligations to investors

Notes - 2% unsecured subordinated notes.

The obligation at December 31 is:	<u>2002</u>	<u>2001</u>
109 Notes (2001 - 109 Notes)	\$ 15,100,000	\$ 24,100,000

The obligation is comprised of 28 (2001 – 88) Notes with a face value of \$250,000 and 81 (2001 – 21) Notes with a remaining face value of \$100,000.

As a result of losses on investments and expected liquidity shortfalls in the investment portfolio that were identified in 2001, SGGF III was required to reduce repayments on each Note that matured beginning in January 2001 to \$150,000. Obligations under the Notes are subordinate to all other liabilities of SGGF III and repayment is dependent on the proceeds on liquidation of investments and other available liquidity in excess of other liabilities. The Notes are irrevocable, except in the case of a visa refusal, for a minimum period of five years. It is not known if or when sufficient liquidity will exist to allow repayment of the balance of each Note outstanding.

Interest due on the remaining principal amount of each Note on which the principal has been partially repaid has been accrued.

10. Share capital

The authorized common share capital of SGGF III at December 31 is:

Class A common shares - an unlimited number of voting common shares. Holders of the Class A common shares are not entitled to receive dividends.

Class B common shares - an unlimited number of voting common shares. Holders of the Class B common shares are entitled to receive dividends.

The issued common share capital at December 31 is:

2,000 Class A common shares	<u>2002</u>	<u>2001</u>
	\$ 2,000	\$ 2,000

11. Financial Instruments

SGGF III's primary business is the raising of capital from immigrant investors and placing these funds in new and expanding Saskatchewan businesses. This entails exposure to market risk, credit risk, interest rate risk and liquidity risk. These risk factors may impact upon SGGF III's ability to repay its Notes at maturity.

Market Risk

Market risk is the risk that the fair value of an investment may be affected by the ability of an investee company to profitably distribute its products. Some of the companies in which SGGF III invests are dependent upon a single product or industry. SGGF III manages this risk through careful due diligence prior to committing funds to the investment and by diversifying its investments across various industry sectors.

Credit Risk

Credit risk is the risk that an investee will fail to perform its obligations. Concentration of credit exposure may arise given that SGGF III restricts its investments to businesses operating in Saskatchewan and therefore all investments are subject to a similar general

economic environment. The ability of such investees to meet contractual obligations may be affected by changing economic, political or other conditions. SGGF III conducts thorough due diligence prior to committing to an investment and actively monitors the financial health of its investees on an on-going basis. In addition, some investees operate in and export to other provinces or international markets thereby mitigating this risk.

Interest Rate Risk

Interest rate risk is the risk that SGGF III's earnings will be affected by fluctuations in interest rates. SGGF III manages this risk through carefully monitoring and matching the duration of its portfolio investments and investments with the duration of its obligations to investors.

Liquidity Risk

Liquidity risk is the risk that SGGF III will encounter difficulty in liquidating its investments at the time it is required to repay its Notes. Due to the nature of some of SGGF III's investments, the timing of cash flows from its investments may not exactly match with the payments owing under SGGF III's Notes. SGGF III carefully monitors the duration of its investments. However, these timing differences may require SGGF III to reduce or delay the payments owing on its Notes at maturity.

Fair Value - Investments

There is no active secondary market for many of the entities in which SGGF III invests, and the uncertainty and potentially broad range of outcomes pertaining to the future cash flows from these investments renders the calculation of a fair value with appropriate reliability impractical. The factors that affect the fair value are described above.

Fair Value - Obligations to Investors

No secondary market for the Notes exists. Due to the unique features associated with the Notes, the calculation of a fair value with appropriate reliability is impractical. The risk factors that affect the fair value of investments, as described above, also affect the fair value of the obligations to investors. Repayment of the Notes at maturity is dependent upon the value and liquidity of investments at that time.

12. Administration

Under the terms of a management agreement, expiring in 2004, between SGGF III and Saskatchewan Government Growth Fund Management Corporation ("SGGF Management Corporation"), SGGF Management Corporation administers the assets of SGGF III with the assistance of a manager that performs fund administration and investment management together with several other investment advisors. SGGF Management Corporation does not guarantee the financial performance of SGGF III. All services provided to SGGF III are charged on a fee for service basis. The costs billed to the fund by SGGF Management Corporation are as follows:

	<u>2002</u>	<u>2001</u>
Manager fees	\$ 351,567	\$ 521,501
General administration	5,897	4,864
Directors fees and expenses	10,348	11,964
Legal and professional	<u>21,956</u>	<u>22,832</u>
	389,768	561,161
Provision for investment manager profit share	<u>(12,675)</u>	<u>2,128</u>
	<u>\$ 377,093</u>	<u>\$ 563,289</u>

13. Net change in non-cash balances related to operations

	<u>2002</u>	<u>2001</u>
Accounts receivable and accrued income	\$ 46,808	\$ 118,874
Deferred costs	-	(17,500)
Accounts payable and accrued liabilities	(76,815)	12,412
Commissions payable	-	(34,500)
Accrued charges payable to investors	<u>(382,238)</u>	<u>504,520</u>
	<u>\$ (412,245)</u>	<u>\$ 583,806</u>

14. Income Taxes

A provincial Crown corporation owns all of the issued shares of SGGF III. Therefore, SGGF III is income tax exempt.

15. Commitments

The total amount of investments approved but not yet disbursed is \$456,928 (2001 - \$456,928).

16. Related party transactions

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan government controlled departments, agencies and corporations with which SGGF III is related. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms.

As stated in Note 12, SGGF III has a management agreement with SGGF Management Corporation. Total fees charged to the fund by SGGF Management Corporation amounted to \$389,768 (2001 - \$561,161). Total fees payable to SGGF Management Corporation at December 31, 2002, and included in the above, is \$13,705 (2001 - \$8,803).

Other transactions with related parties are disclosed separately in the financial statements and notes thereto.

17. Comparative figures

The financial statements include the accounts of SGGF III and, until November 30, 2001, those of 617275 Saskatchewan Ltd. ("617275") on a proportionate basis. 617275 is an entity that was jointly controlled by SGGF III and other SGGF fund companies. Loans from SGGF III to 617275 were used to purchase infrastructure-related assets that were leased to Saskatchewan Crown corporations under various operating leases. In December 2001, 617275 sold its equipment assets, net of accumulated amortization, to a third party entity and a loan was extended to this entity by SGGF III to purchase the assets.

Certain comparative figures have been reclassified to conform with the current year's presentation.

FIVE YEAR FINANCIAL SUMMARY
Saskatchewan Government Growth Fund III Ltd.
(in thousands of dollars)

Financial Position
As at December 31

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Assets					
Cash	\$ 1,634	8,325	4,456	3,890	2,972
Portfolio investments	486	-	4,000	4,000	4,000
Investments	7,753	11,428	17,817	19,452	20,696
Other assets	17	199	695	1,358	2,073
Total assets	<u>\$ 9,890</u>	<u>19,952</u>	<u>26,968</u>	<u>28,700</u>	<u>29,741</u>
Liabilities and Deficit					
Obligations to investors	\$ 15,247	24,655	27,600	28,983	29,793
Other liabilities	85	161	184	245	305
Deficit	(5,442)	(4,864)	(816)	(528)	(357)
Total liabilities and deficit	<u>\$ 9,890</u>	<u>19,952</u>	<u>26,968</u>	<u>28,700</u>	<u>29,741</u>

Operating Results
For the years ended December 31

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Revenues					
Investment income	\$ 313	470	749	747	603
Lease revenue	-	1,813	1,918	1,864	755
Interest from cash and portfolio investments	134	416	555	425	493
Other income	-	25	66	72	596
	<u>447</u>	<u>2,724</u>	<u>3,288</u>	<u>3,108</u>	<u>2,447</u>
Provision for losses on investments	132	3,818	620	445	672
Net revenue	<u>315</u>	<u>(1,094)</u>	<u>2,668</u>	<u>2,663</u>	<u>1,775</u>
Expenses					
Administration	377	563	391	380	413
Financing	516	2,391	2,565	2,453	1,807
Total expenses	<u>893</u>	<u>2,954</u>	<u>2,956</u>	<u>2,833</u>	<u>2,220</u>
Net loss	<u>\$ (578)</u>	<u>(4,048)</u>	<u>(288)</u>	<u>(170)</u>	<u>(445)</u>

CORPORATE INFORMATION

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Businesswoman
Melfort, Saskatchewan

Lloyd Boutilier
Businessman
Regina, Saskatchewan

Darrel Cunningham
Farmer
Lintlaw, Saskatchewan

Harwood Davies
Businessman
Watrous, Saskatchewan

Roland ("Rollie") Hardy
Businessman
Regina, Saskatchewan

Gordon Mertler
Businessman
Regina, Saskatchewan

Fund Manager

Saskatchewan Government Growth Fund
Management Corporation, which has retained
Crown Capital Partners Inc. to provide
management services.

Crown Capital Partners Inc.
Brian A. Johnson, C.F.A., Managing Partner
Alan M. Rowe, C.A., Partner Responsible for SGGF
Christopher J. Anderson, C.F.A., Partner
B. Cameron Johnson, C.A., C.F.A., Partner
Christopher A. Johnson, C.F.A., C.B.V., Partner
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Alan M. Rowe, President

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Banker

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SASKATCHEWAN GOVERNMENT
GROWTH FUND